SELLING COAL

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An eccentric English author once said that there were so many opinions as to how to use punctuation marks, he did not propose to employ any. Instead he would print several pages of them at the end of his book and would allow the reader to distribute them to suit his taste.

This paper is based on statistics. However, so many degrees of a simple lie can be told by figures—and I still have a semblance of respect for the truth—I propose to leave them, in so far as possible, out of the text. I will put all of them in at the end and will allow the reader to rearrange them into tables according to his liking.

The simple facts about bituminous coal are:

1. Reports were, in 1918, received by the U. S. Geological Survey from 11,038 mines.

2. Class I mines, numbering 821 with an average production of about 342,000 tons per year, produced 48.5 per cent of the coal output of 1918.

3. Mines numbering 929 comprised Class II with an average production of about 140,000 tons per year and produced 22.6 per cent of the 1918 coal.

4. Mines to the number of 1198 comprised Class III. They had an average production of about 72,500 tons per year and yielded 15 per cent of the coal in 1918.

5. Class IV consisted of 2636 mines. They had an average production of about 25,000 tons per year and were responsible for 11.7 per cent of the coal of 1918.

6. Class V comprised 5545 mines. They had an average annual production of 2337 tons and gave to the country 2.2 per cent of the 1918 coal.

The student of efficiency and the amateur economist would probably recommend that we dispense entirely with Class V mines; limit sharply the number of Class IV mines; and throw all of their manual and mechanical energy into converting Class II and III mines into Class I mines. Before following their advice, we might do well to consider: (1) that we never get statesmen without first having babies; (2) that when the big demand for coal in 1917 ripened into the titanic struggle to get coal in 1918, it was the small mines alone which gave the increase. That is, despite the fact that there ware 821 Class I mines in 1918, against 792 in 1917—a gain of 29—that group produced 4,363,619 less tons in 1918 than in 1917.

Indeed Class III, IV, and V mines—the insignificantly small mines of the nation—gave us all of our increased production in 1918, after first having made up some 3,000,000 tons loss to which Class I and II mines would have subjected the country.

Of course there are good reasons for this bad showing by the larger mines. Not the least important is the fact that the class I mines were managed by the best thinkers in the coal trade. Those men were forced to abandon their businesses to subordinates while they attended conferences, waded through investigations, and wasted their time and energies on equally fruitless efforts. Their duller associates had nothing to do but produce coal and did it.

Also, when Class III, IV, and V mines multiplied, and when the railroads had to serve them as well as their neighbors, the railroads having only a limited supply of cars could not serve all to 100 per cent, so that Class I and II mines necessarily fell below.

Finally, Class I mines quickly ran through their development work and, lacking men to extend it, had to lose production while they subtracted men from the face to drive the entries and turn the rooms.

Still it is a fact that the larger mines lost 3,000,000 tons while the smaller mines gained more than 30,000,000 tons, leaving the country with a net gain of about 28,000,000. It is not wise, therefore, to set out to destroy the mines which, while small today, give promise of being graduated into a higher class tomorrow, and which also serve as a factor of safety for the country when there is, due to any cause, a sudden expansion of demand.

The Class V mines—commonly called the "wagon mines" or "the snowbirds"—can be left out of any serious economic discussion of the future of the bituminous industry. They are like undertakers—we employ them only upon dreaded occasions; no one wants to use them; and still they are quite necessary. This leaves us with only the mines in Classes I to IV which may properly be said to be dependable. They represent all the normal and natural processes of nature in business, in that they grow from little to big and from young to old. It is with them that, in the long pull, the industry and the public has to deal. All told, in 1918, they numbered some 5584 and produced some 566,000,000 tons of coal. It is upon these mines that the country has to depend for its supply of coal in ordinary times. It is the effort to sell their produce which creates the merchandising problem of the coal industry.

When we come to discuss the sale of coal—or of anything else—we have to take things as we find them. We are not allowed to make them over, even for the purpose of discussion, according to any of our own theories. In the matter of selling coal—or anything else—the people

have been led to believe that the selling is not done properly unless it is done by men employed on salary, big or otherwise, under the immediate control of the producer.

There must be both sense and logic behind that or so many would not say and believe it. Personally I cannot see any reason to believe that a man who is a good producer must for that reason alone be also a good merchant. My experience with men leads me to think exactly the other way. Therefore I say: Leave production to the producer and selling to the merchant, or every man to his trade. But the public holds that if a man gets a producer's profit he will want no merchant's profit; and thus the public will get its goods cheaper. And I bow to the public and say: "Get something for nothing if you can, for that is the great game in life."

We, here, are not studying popular psychology, but general economics. It is one of the implied rules of general economics that for each distinct risk, investment, and effort there should be a comparable compensation. If we follow that theory, we must say that, since the production effort is one and the wholesaling effort another, they constitute two businesses. Each, therefore, should be compensated commensurately even though both are housed in the same edifice and officered by the same men.

So long, however, as the American people hold fast to their belief that the selling organization is virtuous only when controlled by the producer, we must try to let our minds go along with them unless we choose to make them unhappy. It is for us to study the exact annual tonnage which a producing company must have before it can afford to abandon reliance upon outside salesmen and sell its own coal by its controlled or salaried sales force.

To answer that question accurately, we must first understand at least this much: the coal produced within no state is sold wholly in that state. Thus, the meanest operator in the meanest coal state must have enough of a sales organization to sell his coal in at least two states. Some of our poorest coals have a market spread over at least five states. Our best bituminous coals sell in some eighteen or twenty states. It is probably true that on the average the market for coal of one state is in seven states. The task of the producer who wants to sell all of his own coal is to get enough tonnage to pay the expenses of a sales organization large enough to cover seven states.

It is a matter of common knowledge that in the days of competition freed from government control the selling margin ranged close to 7½ cents per ton of mine-run coal. On that basis, the theory of the coal trade was that mines which had only 50,000 tons of annual production —those in Class IV—were wholly dependent upon others to sell their

coal. The man with a million tons of production was supposed to be independent of others. In between, there were all possible variations of modified dependence and modified independence. This leads me to this conclusion: the importance of an independent selling organization to a producer decreases directly in proportion to the producers' increase in tonnage, but under all conditions increases directly in proportion to the distance between the mine and the market.

Financial alliances in the coal fields are so complex that it has been impossible for me to get the exact data as to the number of companies which have a sufficient tonnage to support an independent selling organization. I venture to believe, however, that there are not to exceed seventy-five companies in the United States which could, if they were so disposed, stand the financial strain of selling all of their own coal. All of the others depend in whole or in some part upon independent selling organizations.

To get a working hypothesis, I have assumed arbitrarily that all of the mines in Class I dispose of their own coal without any help from outside their organization. This is by no means true.

I have assumed further that 40 per cent of the mines in Class II have also sold their own coal. This leaves 60 per cent of the mines in Class II and also of the mines in Classes III, IV, and V as wholly dependent upon the wholesale merchants. This means that, because the others cannot afford to sell their own coal, the wholesalers are obliged to market 246,000,000 tons of coal per year, or 42.46 per cent of the total production in 1918.

Knowing what I do about the mines in Classes I and II, I believe it is safely within the truth to say that from 55,000,000 to 60,000,000 tons more of their production is handled through wholesalers. This would mean that the wholesalers annually market in excess of 300,000,000 tons, or about 55 per cent.

This estimate is made tenable by the fact previously stated that in times of harsh competition the sales margin on coal averaged close to 7.3 per cent per ton of mine-run coal. On any such income per ton, a Class I mine, with an annual production of 340,000 tons, would have a sales revenue of only about $19,500.

The same thing is true if you say that a company in Class I is of the average size of the coal companies of the nation—has one and one-quarter mines. Even such an average company would have a revenue from sales of only a little more than $24,000 per year. With any such meager revenue, a company could not maintain salesmen traveling over seven states, endure the losses due to bad credits, pay the demurrage and reconsigning charges, and make the customary allowances in the settlement of claims. So little money will not travel so far.

This leads me to my second conclusion, namely, that the narrow selling margins per ton and the limited tonnage available to each company have necessarily thrown the merchandising work into the hands of organizations wholly independent of the producer.

Still addressing my remarks to the holder of the prevalent notion that the producer ought to sell the coal he mines merely because he is the producer—and quite regardless of his capacity as a merchant—I want to explain briefly what has prevented the development of a sane or sound merchandising system in coal.

When the producer attempted to turn merchant as well, he was still thinking with the mind of a producer. Necessarily he focused his whole attention upon the mine price. To his mind, production was all there was of the coal business. He thought that merchandising was a necessary but unmitigated evil. He therefore wanted to pay as little as possible to sell his coal because every penny of selling cost was going to be subtracted from his mine price. He never thought of making the sales organization over into a separate business, earning a separate margin and hence returning a separate profit. Instead, he clung to the old theory, starved his salesmen, and dwarfed his merchandising policy. The sales representatives of coal mines have struggled along on an income which was even less than that of the bank employee. When I say that much I realize that condemnation can go no farther. The salesman employed by the operator soon learned that there was no hope of a future in that direction; therefore, as quickly as opportunity or his finances would allow, he set up in business for himself. This set up in the coal industry a group of men who had every disposition to be friendly to the operator because he was their source of supply, but who were forced to become competitors because of the operator's merchandising policy.

As this competition became keen, the operators who control large tonnages came to set themselves solidly against these independent merchants. In the fierce struggle for existence which ensued, the tendency was for the producers to advocate the destruction of the independent merchants and for the independent merchants to throw their support to the small competitor of the bigger operator. The result of course was to increase competition which already was ruinous, and to reduce the already extremely narrow sales margin. If under these conditions the independent merchant wanted more money for himself—which of course he did—he had only two ways of getting it: (1) to beat down the mine price which he paid to the operator, while still getting a fair price from the user; (2) to cut the cost of making sales by having a greater assortment of coals to offer. This latter would allow him to

make the maximum of sales with the minimum outlay of travelling expenses.

Indeed, the independent merchant resorted to both methods of enhancing his revenue.

This merchandising system prevented the operator who had a limited assortment of coals and who could not profit by cutting his mine price from getting that revenue from his sales department which, as his tonnage grew, would make him financially independent of these auxiliary selling organizations. In fact, this system tended naturally to broaden and strengthen the hold which the independent merchant had upon the trade.

At the same time, it prevented independent merchants, no matter how great their skill as merchants, from getting that revenue out of a volume of sales which would allow them to develop into large merchandising houses. The upshot of the matter was that the merchandising of coal was increasingly in the hands of independent merchants, and that they were necessarily small and numerous.

Coming now to the conclusion, it is apparent that the one thing which has stood in the way of a real merchandising program in coal has been the insistence of coal men in the past that the selling expense should be subtracted from the mine price rather than added to it.

It has been my theory for years, and still is, that the coal industry will never develop a merchandising policy that is worthy the name until it separates production from wholesaling and attaches a commensurate margin to each. Personally, I believe that the act of production ends with the coal loaded on a car under the tipple, and that the man who produces that coal should get a price for it which gives him his cost plus a profit. Personally, I believe that the act of wholesaling begins with the coal loaded on the car and carries it through until finally disposed of. I also believe that there should be a separate margin covering that service. Incidentally our Association has taken that same position.

Our recommendations which go beyond this statement of principle are confessedly makeshift. We have proposed that, until a better plan is worked out, the margin for the merchant should be a minimum of 8 per cent of the quoted basis. Frankly, that proposal will not stand extensive cross-examination. It is therefore temporary. But it will have to serve until we can get time to think this question through and work out a more sound recommendation.

It is proper to inquire why no more thought has been devoted to this vital subject in the two years which have elapsed since we announced the principle and arrived at this rather rough and ready recommendation.

I deem it a sufficient answer to say that out of the 24 months I and

the members of our executive committee have had only three weeks which we could devote to such a study. The other 23 months and one week have been devoted entirely to the defense of the industry against attacks upon it made by public officials. I do not want it understood that I resent the fact that officials of the government wish to inform themselves about coal. I do believe that when only 4 per cent of the time is allowed for constructive work and when 96 per cent of our time has been necessarily devoted to defense, a disproportionate amount of the time of an Association such as ours has been expended in unproductive work. Until we have had time to think our merchandising program through, we should be freed from the necessity of attending many investigations. Even our half-baked ideas on the merchandising side of the coal business would, if applied to the industry as it now stands, result in great developments of a forward looking character.

We will admit for the purpose of argument that it is the proper theory that the producer should also be the merchant. We will admit, therefore, that benefit to the greatest number will come from the producer selling as well as mining his coal. It is desirable, therefore, to put him in a position to develop a selling force. We will assume that our ideas are carried into effect and that an 8 per cent selling margin is added to the producer's mine price and is paid to whoever earns it. The operator, under those circumstances, is encouraged to get a profit by building a selling organization. The selling organization pays from the start all of its expenses and, as its tonnage grows, begins to make a little money. This naturally encourages the operator to build up his selling organization.

Naturally, at first, he sells only to those customers who buy big tonnages. Afterwards he naturally expands to cover the entire field. The tendency, therefore, is for the mine to build up a selling organization.

In the meantime, the independent merchant begins to get a revenue which allows him a little more than the mere cost of doing business. Money always has a tendency to return to the place where it was made. If a merchant makes money out of selling coal, he naturally reinvests that money in that same line of business. Therefore, the tendency is and will be for the coal merchandising houses to grow from little to big.

Thus there will grow up bigger sales organizations controlled by mines and bigger independent merchants. In the end the trade will have healthy competition in selling, but the units will be larger and more serviceable.

My associates and I are convinced that in a very short time the carrying out of this policy will result in the development of those selling organizations which the statistics of the trade indicate are necessary to take care of peculiar needs of the industry.

We are all very much concerned to see a proper merchandising policy develop because we are going to need some real coal merchants. I am firmly convinced that nothing but a pronounced export policy will either stabilize this industry, assure the solvency of the American merchant marine, or put a firm foundation under our exports of other things. I am firmly convinced that we shall never develop a proper export coal program without coal merchants. I am equally convinced that we shall never develop coal merchants unless we set out studiously to create merchants by adding a merchandising price to the mine price.

COAL STATISTICS

Production by Classes of Mines

Group	1918		1917	
	Total	Av. per mine	Total	Av. per mine
Class I	281,002,122	342,268	295,365,741	360,310
Class II	130,941,195	140,947	129,485,524	141,669
Class III	86,907,873	72,544	47,894,269	71,738
Class IV	67,788,140	25,000	51,596,000	25,850
Class V	12,746,488	2,337	10,499,029	1,775

Number of mines per group

	1918	1917	Gain
Class I	821	792	29
Class II	929	914	15
Class III	1198	1040	158
Class IV	2636	1996	640
Class V	5454	5888	*434

Tonnage Gains in 1918 over 1917 by Groups

Class I	*4,363,619
Class II	1,455,671
Class III	12,013,604
Class IV	16,192,140
Class V	2,297,459

* Loss.

Dependable Mines (1918)

	Mines	Output
Class I	821	281,002,122
Class II	929	130,941,195
Class III	1198	86,907,873
Class IV	2636	67,788,140
Total	5584	566,639,330

Average Output per Mine per Year	101,475
" " " " " Day	407.5
(249 working days per year)	
Average Number Mines per Company	1.26
Average Tonnage per Company	127,858.5
" " " " per day	513.45

Bituminous Coal Sold by Independent Merchants

Class II	78,565,717 or 60% of Class II
Class III	86,907,873
Class IV	67,783,140
Class V	12,746,880— 42.46% of total

Selling Revenue (1918 basis) by Groups (old and new basis)

Group	Average Tonnage	Revenue (old basis, 7½c ton)	Revenue (new basis, 8%)
Class I	342,268	$19,670.10	$53,762.88
Class II	140,947	10,571.02	22,551.52
Class III	72,544	5,440.80	11,607.04
Class IV	25,000	....	....
Class V	2,164	....	....